

CITY OF CRYSTAL LAKE
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2014

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CITY OF CRYSTAL LAKE

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Shari Hagan	Mayor	Jan 2014
Russell Helm	Council Member	Jan 2016
Linda Anderson	Council Member	Jan 2014
Laura Blocker	Council Member	Jan 2016
Samantha Corsaro	Council Member	Jan 2016
Les Leibrand	Council Member	Jan 2014
Janice Haugland	City Clerk	July 2014
David Fenchel	Attorney	July 2014
(After January 2014)		
Shari Hagan	Mayor	Jan 2016
Russell Helm	Council Member	Jan 2016
Linda Anderson	Council Member	Jan 2018
Laura Blocker	Council Member	Jan 2016
Samantha Corsaro	Council Member	Jan 2016
Les Leibrand	Council Member	Jan 2018
Janice Haugland	City Clerk	July 2014
David Fenchel	Attorney	July 2014



Renner & Birchem, PC

Certified Public Accountants

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Crystal Lake, Iowa, as of and for the year ended June 30, 2014, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net position and by fund of the cash balances at July 1, 2013.

Qualified Opinions

In our opinion, except for the effects of the matter discussed in the “Basis for Qualified Opinions” paragraph, the financial statements referred to in the first paragraph of this report present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the remaining fund information of the City of Crystal Lake as of June 30, 2014, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Crystal Lake’s basic financial statements.

The other information, the budgetary comparison information on pages 17 and 18 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 20, 2015 on our consideration of City of Crystal Lake’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Crystal Lake’s internal control over financial reporting and compliance.

March 20, 2015

Renner & Birchem, P.C.
Britt, Iowa

BASIC FINANCIAL STATEMENTS

City of Crystal Lake

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:						
Governmental activities:						
Public safety	\$ 15,528			(15,528)		(15,528)
Public works	59,799	21,999	19,605	(18,195)		(18,195)
Health and social services	900			(900)		(900)
Culture and recreation	14,767		12,321	(2,446)		(2,446)
Community and economic development	3,096			(3,096)		(3,096)
General government	37,548			(37,548)		(37,548)
Total governmental activities	131,638	21,999	31,926	(77,713)		(77,713)
Business type activities:						
Water	37,070	32,512			(4,558)	(4,558)
Sewer	16,048	32,425			16,377	16,377
Total business type activities	53,118	64,937			11,819	11,819
Total	\$ 184,756	86,936	31,926	(77,713)	11,819	(65,894)
General Receipts:						
Property tax levied for:						
General purposes				\$ 47,605		47,605
Local option sales tax				17,363		17,363
Unrestricted interest on investments				90	90	180
Miscellaneous				7,574		7,574
Sale of assets				6,449		6,449
Start up library				19,147		19,147
Total general receipts and transfers				98,228	90	98,318
Change in cash basis net position				20,515	11,909	32,424
Cash basis net position beginning of year				127,984	126,115	254,099
Cash basis net position end of year				\$ 148,499	138,024	286,523
Cash Basis Net Position						
Restricted:						
Expendable:						
Streets				\$ 43,664		43,664
Other purposes				50,505		50,505
Unrestricted				54,330	138,024	192,354
Total cash basis net position				\$ 148,499	138,024	286,523

See notes to financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2014

	Special Revenue			Total
	General	Road Use Tax	Capital Projects	
Receipts:				
Property tax	\$ 47,605			47,605
Other city tax		19,605		19,605
Licenses and permits	612			612
Use of money and property	592	58	15	665
Intergovernmental	12,321	17,363		29,684
Charges for services	21,999			21,999
Miscellaneous	6,302	85		6,387
Total receipts	89,431	37,111	15	126,557
Disbursements:				
Operating:				
Public safety	15,528			15,528
Public works	33,300	26,499		59,799
Health and social services	900			900
Culture and recreation	14,767			14,767
Community and economic development	3,096			3,096
General government	37,548			37,548
Total disbursements	105,139	26,499		131,638
Excess (deficiency) of receipts over (under) disbursements	(15,708)	10,612	15	(5,081)
Other financing sources (uses):				
Sale of assets		6,449		6,449
Start up library	19,147			19,147
Operating transfers in	18,801			18,801
Operating transfers out		(18,801)		(18,801)
Total other financing sources (uses)	37,948	(12,352)		25,596
Net change in cash balances	22,240	(1,740)	15	20,515
Cash balances beginning of year	32,090	45,404	50,490	127,984
Cash balances end of year	\$ 54,330	43,664	50,505	148,499
Cash Basis Fund Balances				
Restricted for:				
Streets		43,664		43,664
Other purposes			50,505	50,505
Unassigned	\$ 54,330			54,330
Total cash basis fund balances	\$ 54,330	43,664	50,505	148,499

See notes to financial statements.

City of Crystal Lake

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2014

	Enterprise Funds		
	Water	Sewer Rental	Total
Operating receipts:			
Charges for service	\$ 32,512	32,425	64,937
Total operating receipts	32,512	32,425	64,937
Operating disbursements:			
Business type activities	37,070	16,048	53,118
Total operating disbursements	37,070	16,048	53,118
Excess of operating receipts over operating disbursements	(4,558)	16,377	11,819
Non-operating receipts:			
Interest on investments	32	58	90
Net non-operating receipts	32	58	90
Net change in cash balances	(4,526)	16,435	11,909
Cash balance beginning of year	50,416	75,699	126,115
Cash balances end of year	\$ 45,890	92,134	138,024
Cash Basis Fund Balances			
Unrestricted	\$ 45,890	92,134	138,024
Total cash basis fund balances	\$ 45,890	92,134	138,024

See notes to financial statements.

CITY OF CRYSTAL LAKE

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

The City of Crystal Lake is a political subdivision of the State of Iowa located in Hancock County. It was first incorporated in 1898 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Crystal Lake has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments.

B. Basis of Presentation

Government-wide Financial Statements – The Cash Basis Statement of Activities and Net Position reports information on all the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

CITY OF CRYSTAL LAKE

Notes to Financial Statements (continued)

June 30, 2014

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has elected to report all governmental funds as major funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Capital Project Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

CITY OF CRYSTAL LAKE

Notes to Financial Statements (continued)

June 30, 2014

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

CITY OF CRYSTAL LAKE

Notes to Financial Statements (continued)

June 30, 2014

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments during the year ended June 30, 2014 meeting the disclosure requirement of Governmental Accounting Standards Board Statement No. 3 as amended by Statement No. 40.

(3) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by the state statute. The City's contribution to IPERS for the year ended June 30, 2014 was \$3,752 equal to the required contributions for the year.

(4) Related Party Transactions

The City had no business transactions between the City and City officials during the year ended June 30, 2014.

(5) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

CITY OF CRYSTAL LAKE

Notes to Financial Statements (continued)

June 30, 2014

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contribution to the Pool for the year ended June 30, 2014 was \$6,951.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by the Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for the period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

CITY OF CRYSTAL LAKE

Notes to Financial Statements (continued)

June 30, 2014

The City also carries commercial insurance purchased from other insurers for coverage associated with fidelity bonding. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The City of Crystal Lake is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Road Use Tax	<u>\$18,801</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) City Library

During the year the City library was established by the City of Crystal Lake. The funds on hand at that time \$19,147 are reflected as other financing sources to the general fund.

(8) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No.27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

OTHER INFORMATION

City of Crystal Lake

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 47,605		47,605	45,234	45,234	2,371
Other city tax	19,605		19,605	24,904	24,904	(5,299)
Licenses and permits	612		612	600	600	12
Use of money and property	665	90	755	4,200	4,200	(3,445)
Intergovernmental	29,684		29,684	19,125	32,210	(2,526)
Charges for services	21,999	64,937	86,936	98,100	98,100	(11,164)
Miscellaneous	6,387		6,387	10,000	11,975	(5,588)
Total receipts	126,557	65,027	191,584	202,163	217,223	(25,639)
Disbursements:						
Public safety	15,528		15,528	16,650	18,650	3,122
Public works	59,799		59,799	64,500	66,500	6,701
Health and social services	900		900	900	900	0
Culture and recreation	14,767		14,767	11,300	17,800	3,033
Community and economic development	3,096		3,096	500	3,200	104
General government	37,548		37,548	34,550	41,550	4,002
Capital projects				5,000	5,000	5,000
Business type activities		53,118	53,118	65,000	75,000	21,882
Total disbursements	131,638	53,118	184,756	198,400	228,600	43,844
Excess (deficiency) of receipts over (under) disbursements	(5,081)	11,909	6,828	3,763	(11,377)	18,205
Other financing sources, net	25,596		25,596			25,596
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	20,515	11,909	32,424	3,763	(11,377)	43,801
Balances beginning of year	127,984	126,115	254,099	263,678	263,678	(9,579)
Balances end of year	\$ 148,499	138,024	286,523	267,441	252,301	34,222

See accompanying independent auditor's report.

City of Crystal Lake

Notes to Other Information – Budgetary Reporting

June 30, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$30,200. The budget amendment is reflected in the final budgeted amounts.



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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Crystal Lake, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 20, 2015. Our report expressed qualified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balances at July 1, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Crystal Lake's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Crystal Lake's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Crystal Lake's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Crystal Lake's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-14 through I-D-14 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Crystal Lake's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Crystal Lake's Responses to Findings

City of Crystal Lake's responses to findings identified in our audit are described in the accompanying Schedule of Findings. City of Crystal Lake's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion of them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Crystal Lake during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

March 20, 2015

Renner & Birchem, P.C.
Britt, Iowa

City of Crystal Lake

Schedule of Findings

Year Ended June 30, 2014

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

I-A-14 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that substantially all accounting functions are performed by the one individual.

Recommendation - We realize segregation of duties is difficult with the limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews should be documented by the signature or initials of the reviewer and the date of the review. Additionally, a listing of receipts received in the mail should be prepared, at least on a test basis. The listing should be compared to the receipt records by an independent person.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-14 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council – designated independent person should review the reconciliations and monitor delinquencies. It was noted that individuals connected to the City had delinquent utility account balances. The City should emphasize to employees and council members that they are setting an example to the community by their actions.

Response – These procedures will be considered as recommended.

Conclusion – Response accepted.

City of Crystal Lake
Schedule of Findings
Year Ended June 30, 2014

Part I: Findings Related to the Financial Statements: (continued)

I-C-14 Prenumbered Receipts – Prenumbered receipts were not issued by the City for all collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money received. In addition since the City basically utilizes a manual accounting system, ledger receipt cards should be used.

Response – The City will investigate this.

Conclusion – Response accepted.

I-D-14 Posting of Financial Transactions – Receipts and disbursements were not always posted to the correct accounts.

Recommendation – More care should be exercised when posting transactions to reduce the incidence of mispostings.

Response – In the future, more care will be exercised when posting transactions.

Conclusion – Response accepted.

Instances of Non – Compliance:

No matters were noted.

City of Crystal Lake
Schedule of Findings
Year Ended June 30, 2014

Part II: Other Findings Related to Required Statutory Reporting:

II-A-14 Certified Budget – Disbursements during the year ended June 30, 2014, did not exceed amounts budgeted.

II-B-14 Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. The disbursements are detailed as follows.

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Three Oaks Green House	Flower arrangements for gifts	\$66

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

II-C-14 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-14 Business Transactions – No business transactions between the City and City officials or employees were noted.

II-E-14 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-14 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not.

However, certain minutes of the City Council meetings were not signed as required by Chapter 380.7 of the Code of Iowa. Also the City did not publish annual gross salaries as required by an Attorney General’s opinion dated April 12, 1978.

Recommendation – The City should comply with Chapter 380.7 of the Code of Iowa. The City should publish annual gross salaries, as required.

Response – The Mayor and Clerk will immediately begin signing the minutes after approval. The City will publish gross wages as required.

Conclusion – Response accepted.

City of Crystal Lake

Schedule of Findings

Year Ended June 30, 2014

Part II: Other Findings Related to Required Statutory Reporting: (continued)

II-G-14 Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa. However, the maximum amount which may be kept on deposit in each depository is not stated in the resolution.

Also, interest on investments made from the Special Revenue, Road Use Tax Fund has been credited to the Road Use Tax Fund. In accordance with Chapter 12C.7(2) of the Code of Iowa, the interest should be recorded in the General Fund.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. In addition the City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of Code of Iowa. In addition, the City should attempt to determine the amount of interest credited to the Road Use Tax Fund and make a corrective transfer to the General Fund. In the future, interest received from invested road use tax receipts should be recorded in the General Fund.

Response – We will adopt a written investment policy and resolution to approve amounts of depositories. Also, interest will no longer be recorded in the Road Use Tax Fund.

Conclusion – Response accepted.

II-H-14 Electronic Checks – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City did not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain check images as required.

Response – The bank will be notified that both sides of the checks will also be required on the bank statement for the City's accounts.

Conclusion – Response accepted.